

Ethnic diversity is still a serious issue at the top level in accounting firms

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In recent years, there has been a growing concern about the lack of diversity in workplaces, particularly in terms of ethnic and gender diversity. To address this, many companies have taken action by

adjusting their recruiting policies and setting targets for achieving minimum diversity levels.

The accounting profession has suffered from the under-representation of women and marginalized people for many years. It has long been considered a [white, male-dominant profession](#).

Accounting firms, especially [the Big Four](#)—Deloitte, Ernst & Young, PricewaterhouseCoopers and Klynveld Peat Marwick Goerdeler—have taken various measures to improve the diversity of their workforce by recruiting and retaining employees of various backgrounds.

Each of the Big Four [audit](#) firms, for example, have created the equivalent position of chief diversity officer—a position that develops and implements diversity, equity and inclusion initiatives in the organization.

Despite these efforts, diversity at more senior ranks in accounting firms is still very much lagging, especially with regard to ethnic representation.

Under-representation in accounting

A [2019 survey from the Association of International Certified Professional Accountants](#) found that only nine percent of accounting firm partners identify as non-white.

Another study from the [Association of Accountants and Financial Professionals in Business](#) found that only 8.9 percent of accountants and auditors identified as Hispanic or Latino, 8.5 percent identified as Black or African American and 12 percent identified as Asian.

[A similar report from the United Kingdom](#) found only 11 out of almost 3,000 (or 0.4 percent) of equity partners in the Big Four firms in the

U.K. are Black, compared with their population representation of 3.3 percent.

Although we still don't have robust enough data about accounting firms in Canada yet, there is research that suggests [women and minorities are under-represented at senior positions](#) in Canadian firms as well.

Recognizing the under-representation of ethnic [minority](#) accountants at the partner level, my colleagues and I aimed to gain insights into the work environment of ethnic minority accountants who made it to the top of the ladder in U.S. firms.

New insights from research

My co-researchers and I used the term ethnic minority in our study to refer to those who are Asian, Black non-Latino, Hispanic Latino and white non-Latino as per the U.S. Census' taxonomy. We collected data on audit partners in the U.S. from 2016 to 2020 and conducted a comprehensive analysis of various aspects of their work.

[We found that ethnic minority auditors were less likely to become partners](#) at accounting firms. The ones that did were more likely to become partners at less notable accounting offices. They were more likely to become partners in firms other than the Big Four firms, in offices that did not have prestigious clients, in smaller offices and in offices that earned less fees.

This is despite the fact that, as our research found, they performed better than non-ethnic minority partners. Using various performance measures [common in accounting research](#), we found ethnic minority partners performed better than their white counterparts. It is, therefore, unlikely that the under-representation of ethnic minorities at the partner level is due to their inability to perform well.

Our study also found that ethnic minority partners were more likely to be in charge of audit engagements if a client's senior leadership also included ethnic minorities.

It also showed that, once an error occurred, white audit partners were more likely to be absolved of audit failures than ethnic minority audit partners. The likelihood of an audit [partner](#) being replaced after a material error was discovered in a financial statement was higher for ethnic minority partners (39 percent) versus white partners (24 percent).

Improving ethnic representation

One of the consequences of ineffective diversity, equity and inclusion practices in the accounting profession is [talent drain](#). Up to 55 percent of accountants from under-represented groups leave their employers, and up to 18 percent leave the profession altogether. This raises concerns about the long-term sustainability of the profession's talent pipeline.

Our study points to some major gaps in terms of promotion and treatment of ethnic audit partners in the accounting profession. Diversity at higher levels in the corporate hierarchy appears to be lacking.

Our study also suggests two major benefits of closing these gaps. First, because ethnic audit partners appear to outperform their white counterparts, more ethnic representation at senior positions will translate to higher-quality audits. Second, improving the ethnic [diversity](#) in senior accounting positions will help combat talent drainage.

There must be greater efforts to recruit, nurture and promote talented accountants from under-represented backgrounds, including fast-tracking promising audit managers to partnership. Individuals from under-represented groups should receive opportunities equal to those of their white peers when it comes to career advancement and the choice of

work environment.

We believe more ethnically diverse accounting leadership will strengthen the profession by attracting and retaining talented ethnic [accounting](#) professionals and will position it to deal better with the challenges of the future.

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